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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000271

SIPDIS

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TAGS: [EFIN](#) [PREL](#) [ECON](#) [BM](#)

SUBJECT: BURMA'S BANKS: HOPING FOR THE BEST, EXPECTING THE WORST

REF: A. RANGOON 249 AND PREVIOUS

1B. RANGOON 30

Classified By: DCM Ron McMullen for Reasons 1.5 (B,D)

11. (C) Summary: Week two of the banking crisis started with grand hopes of a resolution to liquidity problems, but closed with little change in the overall situation. The GOB started the week strong, with the apparent extension of Central Bank loans on the 24th, but remained disturbingly silent and inactive the rest of the week. Banks continue to hemorrhage deposits, and are maintaining, and in some cases reducing, their withdrawal limits. Despite a stalled economy, and without significant assistance from the banks, companies scrimped and saved to ensure payday passed on the 28th with no apparent disruption. However, it appears employers may have used up their last reserves to meet payroll, and may have little left to face any future shocks. End summary.

Banks Still in Doldrums

12. (C) Rumors at the beginning of the week that Burma's private banks would lift their weekly withdrawal limits by February 26 proved to be greatly exaggerated. It is clear that some private banks are having more trouble than others, but all are in increasingly desperate straits. All private banks maintained withdrawal ceilings throughout the week. However, until February 27, some were still able to provide 500,000 kyat (about \$500) per week to customers. By fiat of the Myanmar Banking Association, as of February 27 all banks were told to reduce their weekly limits to no more than 100,000 kyat (though some banks were reportedly only able to provide 50,000 kyat per customer/week). Bankers report dismal conditions at branches across Burma, though the tightest situations remain in Rangoon and Mandalay.

13. (C) According to our calculations, over the course of this week the combination of tokens and withdrawal limits applied by the banks allowed for withdrawals of at most 30 billion kyat. In fact, banking sources say that net outflows were likely quite close to the full 30 billion -- a bad sign for the banks. AWB, KBZ, and the other large banks have been willing in a very few cases to lift their withdrawal limits slightly for major depositors who needed emergency cash to meet their payrolls. However, the amounts that the banks actually allowed to be withdrawn were reportedly far lower than their customers demanded. Two bankers reported that military intelligence insisted on vetting all requests for emergency withdrawals, approving very few.

14. (C) On the plus side, bankers reported some return of deposits (mostly into so-called "guaranteed" accounts). However, the number of returnees was relatively insignificant. Likewise, businesspeople report that the banks asked borrowers to repay immediately between 25-40 percent of their outstanding balances. However, business and banking sources have told us that borrowers have no ability to repay since commerce has slowed to a halt and companies are conserving every kyat on hand to pay employees and other current expenses. We've heard rumors as well that banks have sold or are trying to sell some of their real assets in an effort to bolster cash reserves.

15. (C) All in all, the total estimated withdrawals this week make the total outflow over the last two weeks roughly 230 billion kyat (about 200 percent of estimated cash on hand in all private banks at the beginning of the crisis). In response, the GOB this week reportedly extended 33 billion kyat in loans to the three most troubled banks (AWB, Yoma, KBZ). The Central Bank also allegedly loaned 20 billion kyat to three second-tier banks (MUB, MOB, and Mayflower). However, comments from some bankers (including Yoma Bank's General Manager) have raised some questions as to whether all of these Central Bank advances ever were actually made.

Wages Will Be Paid, But No Thanks to Banks

16. (C) The limited exceptions to the withdrawal limits described above were not adequate to bail out most companies

facing payroll on February 28. Despite this, businesspeople were nervously optimistic that they would be able to pay their workers on time. Garment firms, and other export-oriented industries, are paid in foreign exchange. These industries have cashed in some of their dollar reserves (at a relatively poor exchange rate) to get enough kyat to pay salaries. Other firms with kyat revenues are following the same model, cashing in real assets or borrowing money from private lenders using these assets as collateral. Traders are cutting back on their purchases this week, at a cost to commerce, in order to conserve cash for payday. The bottom line as of the end of February 28th, is that we've not seen or heard any evidence that employers have failed to meet their obligations.

17. (C) The mad dash to cash in dollars combined with people's high expectations and the disappointing reality have had a strong impact on the dollar/kyat market. After dipping briefly to 800 kyat last week, the dollar recovered on expectations of firm government action, back up to 1060 on February 25. When withdrawal limits did not come off, and when employers realized they were on their own, the dollar's value dropped rapidly to 950 kyat/dollar on February 27, where it remained through February 28.

How Long Can it Last?

18. (C) Economists, bankers, and businesspeople are unclear how long the crisis will last, though there is no optimism that a solution is in the offing. Though Burma has suffered nearly every economic indignity imaginable, a banking crisis is relatively uncharted waters. Bankers continue to hope that at a minimum the GOB will be willing to add new money to meet demands for liquidity. Even the most optimistic observers, though, are less sure that the government will take the correct steps to fully heal the patient (e.g., by liberalizing the conditions under which the banks operate) when and if the bleeding is stanchied.
Martinez